

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6749

BILL NUMBER: SB 228

DATE PREPARED: Feb 5, 2002

BILL AMENDED: Feb 4, 2002

SUBJECT: Prior Authorization of Drugs under Medicaid and CHIP.

FISCAL ANALYST: Alan Gossard

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FUNDS AFFECTED: X GENERAL
DEDICATED
X FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill prohibits the use of prior authorization for antianxiety, antidepressant, and antipsychotic drugs under Medicaid and the Children's Health Insurance Program (CHIP). The bill provides that this prohibition does not apply to a formulary or prior authorization program operated by a managed care organization under the Medicaid or CHIP programs. The bill also establishes procedures to follow for requiring prior authorization for other drugs under the Medicaid and CHIP programs. The bill allows the Office of Medicaid Policy and Planning (OMPP) to place limits on quantities dispensed or the frequency of refills for any covered drug for the purpose of preventing fraud, abuse, waste, overutilization, or inappropriate utilization or to implement disease management.

This bill also establishes a therapeutics committee as a subcommittee of the Drug Utilization Review (DUR) Board and specifies committee membership and terms. The bill gives the DUR Board the duty of developing and maintaining a preferred drug list for Medicaid's fee-for-service and Primary Care Case Management (PCCM) programs and CHIP in consultation with the therapeutics committee. The bill also sets out implementation dates for the preferred drug list and specifies that any drug that is included on the preferred drug list may not require prior authorization upon implementation of the preferred drug list. (The introduced version of this bill was prepared by the Joint Commission on Medicaid Oversight.)

Effective Date: (Amended) Upon passage; July 1, 2002.

Explanation of State Expenditures: (Revised) This bill places into statute certain limitations on prior authorization in the Medicaid fee-for-service and CHIP programs. These limitations are consistent with current practice and, thus, would result in no additional costs to the state.

Preferred Drug List: The bill also establishes a Therapeutics Committee as a subcommittee of the DUR Board. The Committee and Board are to research, develop, and approve a preferred drug list for Medicaid's fee-for-service, PCCM, and CHIP programs. Drugs on the list will not require prior authorization, while

drugs not on the list may be subject to prior authorization. OMPP has estimated a *maximum* potential annual expenditure reduction in the Medicaid program of \$30 M in state dollars, depending upon what drugs are placed on the list, the therapeutic classes covered by the list, etc. There may also be additional savings to the state from including the CHIP program in the Preferred Drug List program. The potential savings in the CHIP program are not determined at this time, but since children tend to be low users of pharmaceuticals, the expenditure reductions are not expected to be as large as for the regular Medicaid program.

Timing of any expenditure reductions will also depend upon the timing of implementation, with full-year expenditure reductions not likely to occur in the first year. Ultimately, the expenditure reductions will depend upon DUR Board and administrative actions.

Expenditures in the Medicaid program are shared, with about 62% of program expenditures reimbursed by the federal government and 38% provided by the state. Expenditures in the CHIP program are reimbursed at an enhanced federal matching rate of about 73%.

Explanation of State Revenues: (Revised) See *Explanation of State Expenditures*, above, regarding federal reimbursements in the federal- and state-funded Medicaid program and in the CHIP program.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: OMPP.

Local Agencies Affected:

Information Sources: Melanie Bella, OMPP, 233-4455.